

# Food Program Facts

---

## THE AGRICULTURAL MARKETING SERVICE STATE OPTION CONTRACT (SOC) PROGRAM

March 1998

### 1. What is the State Option Contract Program?

The State Option Contract (SOC) Program is a federally assisted program whereby the Agricultural Marketing Service enters into formal written Federal-State Agreements with State Distributing Agencies (DAs) to have bulk USDA commodities like chicken or beef converted into finished end products such as chicken nuggets or 100% beef patties (cooked). Under the current program, DAs may choose to have a portion of their commodity entitlement further processed on a fee-per-pound basis.

Currently, USDA SOC contracts involve: (a) processing beef or pork into patties and/or (b) processing chicken into chicken nuggets and chicken patties. Since the program first began in 1972, other items have been offered in the SOC Program including beef wafer steaks, cheese slices, and cooked breaded chicken parts.

### 2. How does the program work?

To participate in SOC, DAs must first enter into a formal agreement with USDA to receive processed commodities under the SOC Program. Under a Federal-State Agreement, USDA will do the following on behalf of the DA:

- a. Develop the commodity specifications.
- b. Handle all SOC contracting responsibilities and claims against contracted vendors/processors.
- c. Pay the processor in advance for the full contract value of the SOC item including the processing costs which must be reimbursed to USDA by the DA within 90 days of delivery of the product.
- d. Arrange for shipping all food orders to the destinations specified by the DA.
- e. Provide Federal certification of all SOC product.
- f. Send bills for collection to DAs specifying the amount to be paid by the DA to USDA for the processing cost incurred by the Department for the DA.

## **FOOD PROGRAM FACTS**

In return for these services provided by USDA, the DA agrees to reimburse the Department within 90 days of receipt of each SOC delivery in an amount equal to the costs incurred by USDA to have the bulk commodities further processed into end products. DAs usually pass the processing costs on to the local districts. However, DAs are ultimately responsible for reimbursing USDA for all SOC purchases. In addition, DAs agree to pay USDA interest on any late payments made after the 90-day due date specified in the bill for collection.

### **3. How are SOC processing contracts awarded by USDA to processors?**

First, the participating DA submits a food order requisition to the applicable USDA Food and Nutrition Service (FNS) Regional Office. The DA informs the FNS Regional Office of the maximum price per pound it is willing to pay to have bulk commodities like chicken further processed into finished end products such as chicken nuggets.

Upon receipt and approval of the DA's food order request which is placed in truckload quantities, AMS or Farm Service Agency (FSA) solicits bids from interested processors. All SOC contracts will then be awarded under Federal competitive bidding procedures. However, no contracts will be awarded by AMS or FSA if the processor's bid price exceeds the maximum price the DA is willing to pay for the processing costs to be charged by the prospective processor. If the processor's bid price is within the maximum price per pound the DA is willing to pay, then AMS or FSA will award a contract based on the food request made by the DA.

### **4. How long does it take to receive SOC commodities?**

The lead-time on most orders is about 45 to 60 days. For example, if the DA wants to receive delivery of a SOC product in September, the order should be placed with the FNS Regional Office in July. Of course there are exceptions to this rule, but this is a good rule of thumb to go by.

### **5. Does the processor use USDA's bulk commodities to produce the finished processed items?**

No. Under the current SOC Program, there is no physical movement of USDA commodities under SOC. When a SOC contract is awarded for any SOC purchase, the processor uses its own raw ingredients to produce the requested finished product for SOC. Consequently, the processor will be paid the full price of the SOC purchase (this includes the basic entitlement cost for the raw commodities and the processing cost, which includes the cost of the other ingredients needed to produce the finished SOC end product).

## FOOD PROGRAM FACTS

### 6. What are the DA reimbursement procedures?

Within 90 days of receipt of the SOC delivery, the DA is required to reimburse USDA for the processing costs incurred by USDA on behalf of the DA. This is the cost related to having the bulk commodities converted into finished SOC products. Bills for Collection will be sent to the DA to confirm the actual amount due USDA for any SOC deliveries. See example below:

<u>SOC Item</u>	<u>Quantity</u>	X	<u>Processing Cost (price per lb.)</u>	=	<u>Amount to be Reimbursed by DA to USDA in 90 days</u>
Chix Nuggets	39,000 lbs.		\$.9500		\$37,050

Where appropriate, Bills for Collection will be adjusted by USDA to reflect any valid adjustments resulting from discrepancies between the quantity of SOC products ordered by the DA and the quantity actually received from the vendor.

The DA then forwards a check directly to USDA in the amount of the processing cost specified in the appropriate bill.

### 7. What type of recipient agencies are eligible to participate in the program?

Schools or school food authorities participating in the National School Lunch and School Breakfast Programs may purchase SOC products through their State DA.

### 8. How many DAs participate in the SOC?

To date, 10 DAs have signed Federal-State Agreements to participate in SOC.

### 9. Are DAs required to renew SOC agreements each year?

No. DAs will be granted permanent approval to participate in the SOC Program unless terminated for non-compliance. Once the DA signs a SOC agreement, it will not have to reapply for SOC participation each year.

## FOOD PROGRAM FACTS

### 10. What is the maximum price per pound DAs pay USDA for processing cost for each SOC product received?

	<u>SY 1995-96</u>	<u>SY 1996-97</u>	<u>SY 1997-98</u>
• <b>100% Beef Patties (Cooked)</b>	75 cents	75 cents	75 cents
• <b>VPP Patties (Cooked)</b>	75 cents	75 cents	75 cents
• <b>Rib-Shaped Pork Patties (Cooked)</b>	75 cents	75 cents	80 cents
• <b>Chicken Patties</b>	95 cents	95 cents	95 cents
• <b>Chicken Nuggets</b>	95 cents	95 cents	95 cents

#### Summary

USDA develops the commodity specifications for all SOC products; it has sole responsibility for contract administration over all SOC purchases; it arranges for the SOC products to be delivered from the vendor to the destination specified by the DA; it incurs the up-front costs on behalf of the DA; and it bills the DA for the processing cost associated with each SOC purchase.

The DA primarily is responsible for submitting the appropriate SOC food requisition to the FNS Regional Office and ensuring that USDA is properly reimbursed for all processing costs within 90 days of receipt of all SOC deliveries. Interest will be assessed by USDA on any outstanding debts still remaining after the 90-day due date.